Management's Discussion & Analysis

General

The Federal Columbia River Power System (FCRPS) combines the accounts of the Bonneville Power Administration (BPA), the accounts of generating facilities of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation (Reclamation) and the operation and maintenance costs of the U.S. Fish and Wildlife Service (Fish and Wildlife) for the Lower Snake River Compensation Plan Facilities.

BPA was created by an act of Congress in 1937 to market electric power from the Bonneville Dam located on the Columbia River and to construct facilities necessary to transmit such power. Congress has designated BPA to be the marketing agent for power from all of the federally-owned hydroelectric projects in the Pacific Northwest. In addition, BPA also has a statutory obligation to serve the net requirements of preference customers and investor owned utilities that request service from BPA. BPA, whose headquarters are located in Portland, Oregon, is one of four regional federal power marketing administrations within the U.S. Department of Energy. Many of BPA's statutory authorities are vested in the Secretary of Energy, who appoints, and acts by and through, the BPA Administrator. Some other authorities are vested directly in the BPA Administrator.

BPA's primary customer service area is the Pacific Northwest region (Pacific Northwest or Region) of the United States, encompassing the states of Idaho, Oregon, Washington, parts of western Montana, and small parts of western Wyoming, northern Nevada and northern California. BPA estimates that the population of the 300,000 square-mile service area is approximately eleven million people. Electric power sold by BPA accounts for about 40 percent of the electric power consumed within the Region. BPA markets the majority of this power to over 100 publicly owned and cooperatively-owned utilities for resale to consumers in the Region. BPA also has contracts to sell power for direct consumption to a small number of companies (Direct Service Industries or DSIs) located in the Region.

The Federal Columbia River Transmission System Act of 1974 (Transmission System Act) placed BPA on a self-financing basis, meaning that BPA pays its costs from revenues it receives from the sale of power and the provision of transmission and other services, which BPA provides at rates that seek to produce revenues that recover BPA's costs, including certain payments to the U.S. Treasury. BPA's rates for the foregoing services are subject to approval by the Federal Energy Regulatory Commission (FERC) on the basis that, among other things, they recover BPA's costs. BPA issues and sells bonds to the U.S. Treasury and uses the proceeds thereof to fund certain activities authorized under federal law.

BPA's cash receipts from all sources, including from both its transmission and power marketing business lines, must be deposited in the BPA Fund, which is a revolving fund account of the U.S. Treasury and which is available to pay BPA's costs. In accordance with the Transmission System Act, BPA must make expenditures from the BPA Fund as “shall have been included in annual budgets submitted to Congress, without further appropriation and without fiscal year limitation, but within such specific directives or limitations as may be included in appropriation acts, for any purpose necessary or appropriate to carry out the duties imposed upon [BPA] pursuant to law...”

BPA is required to establish rates to assure repayment of the U.S. Treasury over a reasonable number of years. This results in BPA scheduling to make certain annual payments to the U.S. Treasury. These payments are subject to the availability of net proceeds, which are gross cash receipts remaining in the BPA Fund after deducting all of the costs paid by BPA to operate and maintain the FCRPS other than those used to make payments to the U.S. Treasury for the repayment of the federal investment in certain transmission facilities and the power generating facilities at federally-owned hydroelectric projects in the Pacific Northwest, debt service on bonds issued by BPA and sold to the U.S. Treasury, repayments of appropriated amounts to the Corps and Reclamation for certain costs allocated to power generation at federally-owned hydroelectric projects in the Pacific Northwest, and costs allocated to irrigation projects as are required by law to be recovered from power sales.

Rates

BPA has three Cost Recovery Adjustment Clauses (CRACs) in its power rates that are designed to collect additional power revenues to ensure that BPA has sufficient funds to meet its obligations, including repayment to the U.S. Treasury during the rate period from fiscal year 2002 to 2006. The three CRACs include a Load-Based (LB) CRAC, a Financial-Based (FB) CRAC, and a Safety-Net (SN) CRAC.

The LB CRAC is a percentage rate adjustment and is based on BPA’s costs to purchase power to meet load obligations. Because BPA acquires some portions of this power in a highly volatile market, it is not possible to forecast accurately the cost of purchasing this power over the entire five-year rate period. Accordingly, the LB CRAC has been designed to be responsive to changes in the market price of power and to reflect the change in prices in the fixed power purchase contracts and is reset every six months to recover the anticipated augmentation costs to meet load that cannot be recovered with the base rates. The LB CRAC has been in effect for both fiscal years 2005 and 2006.

The FB CRAC triggers when forecast accumulated net revenues falls below a threshold value for a particular year. The FB CRAC has been in effect for both fiscal years 2005 and 2006.

The SN CRAC is designed to raise rates if a payment to the U.S. Treasury or other creditor has been missed, or if the administrator projects a 50 percent probability that such a payment may be missed in the then-current fiscal year. The SN CRAC increase in rates is zero and 1.75 percent for fiscal years 2005 and 2006, respectively.

Customers

BPA sells power and related services to four main types of customers: Northwest publicly owned utilities, DSIs, Northwest IOUs and other regional and extra regional customers. BPA also sells relatively small amounts of power to several federal agencies within the region. The revenue derived from these customers provides BPA with a large portion of the funds needed to pay its costs. BPA sells transmission and related services under open access tariffs to a broad variety of power generators, including wind generators, marketers and power purchasers. The Revenues table at the end of this section includes the following classifications.

Sales within the Northwest Region

Northwest Publicly Owned Utilities

Qualifying public utility districts, municipalities and consumer-owned electric cooperatives within the Region are entitled to a statutory preference and priority in the purchase of available FCRPS power. These customers have what is referred to as “public preference.” They are eligible to purchase power at BPA’s priority firm rate for most of their loads. As a group, these “Preference Customers” constitute BPA’s largest customer base in terms of number, megawatt sales and revenues.

Direct-Service Industries

BPA is not required to do so, but may offer to sell power for direct consumption to a limited number of existing DSIs within the region.

Northwest Investor-Owned Utilities

BPA provides some firm power to Northwest IOUs. This is power not sold under the public preference priority rate. BPA also sells substantial amounts of peaking capacity to Northwest IOUs during cold periods. As part of its Subscription Strategy, BPA entered into certain agreements, as amended, with the Northwest IOUs in settlement of the statutory obligation that BPA has to provide benefits under the Residential Exchange Program for specified periods that began Oct. 1, 2001.

Discretionary power sales revenues from Northwest IOUs fluctuate with stream-flows in the Columbia River Basin. Stream-flows directly impact the amount of surplus energy available for sale, the costs of generating power with alternative fuels, and ultimately the price BPA can obtain for these sales.

Sales outside the Northwest Region

BPA sells power that is in excess of what is needed to serve firm load obligations in the Region as secondary power to various buyers. Revenue from sales outside the Northwest are highly dependent upon stream-flows in the Columbia River Basin which affect the amount of secondary energy available for sale, and upon the costs of generating power with alternative fuels, which affect the price BPA can obtain for its exported non-firm energy and surplus firm power. As is the case with revenues from Northwest IOUs, revenues from Sales outside the Northwest Region fluctuate with stream-flows in the Columbia River Basin.

Bookouts

BPA's total operating expenses and revenues from electricity sales reflect Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) guidance (referred to herein as "EITF 03-11"). Both revenues and expenses associated with non-trading energy activities that are "booked out" (settled other than by the physical delivery of power) are reported on a "net" basis in both operating revenues and purchased power expense. The accounting treatment under EITF 03-11 has no effect on net revenue, cash flows or margins.

Transmission

BPA receives revenues by providing transmission and other related services. Transmission revenues fluctuate with weather conditions within the Region and outside of the Region, hydro conditions related to secondary power sales and outage requests for construction and maintenance purposes. Over the past few years, secondary sales of transmission service have grown. Customers with excess capacity are able to sell that capacity to other users at a rate below BPA's rate for short-term, non-firm transmission service. BPA is required to provide transmission service to generators and marketers under the same open access tariffs it uses to charge the PBL and other transmission customers.

Other Revenues

Other miscellaneous revenues are included in this category.

U.S. Treasury Credits for Fish

The Northwest Power Act obligates the BPA Administrator to make expenditures for fish and wildlife protection, mitigation and enhancement for power, and for non-power purposes on a reimbursement basis. The Northwest Power Act also specified that consumers of electric power, through their rates for power services "shall bear the costs of measures designed to deal with adverse impacts caused by the development and operation of electric power facilities and programs only." Section 4(h)(10)(C) of the Northwest Power Act was designed to ensure that the costs of mitigating these impacts are properly accounted for among the various purposes of the hydroelectric projects. BPA reduces its cash payments to the U.S. Treasury by an amount equal to the mitigation measures funded on behalf of the non-power purposes.

The Revenues table below summarizes revenues of electric power by customer, transmission, SFAS 133 derivative mark-to-market, other revenues, and U.S. Treasury credits for fish for the 3 months ended June 30, 2006, and 2005.

Revenues

Federal Columbia River Power System
For the quarters ended June 30 — thousands of dollars

	2006	2005
Sales of electric power:		
Sales within the Northwest region		
Northwest publicly owned utilities	**$ 386,651**	$ 348,565
Direct-service industries	**15,268**	15,659
Northwest investor-owned utilities	**125,544**	88,760
Sales outside the Northwest region	**211,904**	170,696
Bookouts	**(58,192)**	(80,297)
Total sales of electric power	**681,175**	543,383
Transmission	**166,937**	133,258
SFAS 133 derivative mark-to-market	**(19,833)**	1,914
Other revenues	**8,424**	8,050
U. S. Treasury credits for fish	**19,096**	17,074
Total operating revenues	**$ 855,799**	$ 703,679

Results of Operations

Net Revenues

The Federal Columbia River Power System earned net revenues of $193 million for the three months ended June 30, 2006, as reported in the Combined Statements of Revenues and Expenses below. By comparison, net expenses were $6 million for the three months ended June 30, 2005. Overall, operating revenues increased $152 million, operating expenses decreased $45 million, and net interest expense decreased $2 million from last year. The change in net revenues from the 3rd quarter of fiscal year 2005 is the result of several factors.

Operating Revenues

In total, operating revenues increased $152 million, or 22 percent from the three months ended June 30, 2005.

Sales, revenues from electricity and transmission, for the three months ended June 30, 2006, were up $166 million, or 25 percent when compared to the comparable period a year earlier. Both Power Business Line and Transmission Business Line revenues increased as reported in the Segment Reporting statements.

Power Business Line revenues increased due to a combination of factors which included an increase in power sales to Northwest Publicly Owned Utility customers and significantly higher spot market power sales enabled by better than historical average precipitation and streamflow in the Columbia River and Snake River basins coupled with strong market prices.

Transmission Business Line revenues also increased due to the load growth and increased discretionary sales discussed above and from an Oct. 1, 2005, rate increase of approximately 12 percent leading to higher revenues for the current year.

Operating Expenses

In total, operating expenses decreased $45 million, or 7 percent from the third quarter of fiscal year 2005.

Operations and maintenance decreased $12 million, or 4 percent for the three months ended June 30, 2006, from the comparable period a year earlier. The decrease was primarily a result of lower operating costs at the Columbia Generating Station mainly for nuclear fuel and lower service contracts expense at BPA.

Purchased power decreased $63 million, or 39 percent compared to the three months ended June 30, 2005. Market prices for power were considerably lower during the third quarter of fiscal year 2006 from levels in the third quarter of fiscal year 2005, and power purchases were about 1,300,000 MWH lower over the same three month period. Due to higher hydro generation and expiring augmentation contracts, BPA's amount and cost of power purchases was lower.

Decreases to operating expenses were partially offset by an increase of $37 million, or 80 percent to nonfederal projects debt service expense primarily due to higher debt service expense for Energy Northwest's Nuclear Project Nos. 1 and 3. The increase is the result of planned payment scheduling for nonfederal debt within the total FCRPS debt portfolio. The overall objective of debt management actions is to achieve the optimal total debt portfolio. The portfolio includes Federal appropriations, bonds issued to the U. S. Treasury, and nonfederal projects debt. Portfolio management causes nonfederal debt to fluctuate between years.

Federal projects depreciation decreased $7 million, or 8 percent reflecting new depreciation rates effective Oct. 1, 2005.

Interest Expense

Net interest expense for the three months ended June 30, 2006, decreased $2 million, or 3 percent, compared to the same period a year ago.

Interest on appropriated funds owed the U.S. Treasury increased $2 million.

Interest on bonds issued to the U.S. Treasury decreased $5 million as the weighted average interest rate declined from 4.9 percent at the beginning of fiscal year 2005 to 4.8 percent at the beginning of fiscal year 2006. This interest expense also decreased as the income earned on BPA's cash account at the U.S. Treasury increased with higher cash balances. BPA reports interest expense on bonds issued to the U.S. Treasury net of the interest income earned.

Lower interest expense was partially offset by $1 million decreased allowance for funds used during construction as a result of the completion of a large BPA transmission project, the Schultz Wautoma transmission line in 2006.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities of the FCRPS increased $399 million to $1.175 billion for the nine months ended June 30, 2006, compared to $776 million for the nine months ended June 30, 2005.

The change in operating cash flow primarily reflects the changes in net revenues, in deferred asset derivatives and differences in the timing of collecting receivables and payments of accounts payable and accrued liabilities.

The change to direct payment by BPA for Energy Northwest costs in the 3rd quarter of 2006 resulted in receipts from participating BPA utility customers flowing to BPA rather than Energy Northwest and a higher BPA cash balance at June 30, 2006. As a result of direct payment, prepaid expenses for Energy Northwest at June 30, 2006, were zero compared to $93 million at June 30, 2005.

Investment Activities

Cash used for investment activities of the FCRPS decreased $21 million to $324 million for the nine months ended June 30, 2006, primarily from lower capital expenditures for nonfederal utility plant, when compared to the nine months ended June 30, 2005. Capital expenditures for nonfederal utility plant totaled $46 million for the nine months ended June 30, 2006, compared to $92 million for the nine months ended June 30, 2005.

Financing Activities

Cash provided by financing activities of the FCRPS was $39 million for the nine months ended June 30, 2006, compared to $105 million cash used for financing activities for the nine months ended June 30, 2005. The $144 million change was primarily the result of repaying $70 million compared to $194 million net bonds issued to the U.S. Treasury in the nine months ended June 30, 2006 and 2005, respectively.

Modified Net Revenues

Modified net revenues are net revenues after removing the effects of SFAS 133 derivative mark-to-market and nonfederal debt management actions that differ from rate case assumptions. The debt optimization program and other debt management actions have contributed significantly to net revenues for a fifth year. Management has determined that modified net revenues are a better representation of the outcomes of normal operations during periods of debt management actions and fluctuations in derivative market prices.

Modified net revenues were $266 million higher for the three months ended June 30, 2006, compared to the three months ended June 30, 2005. The table below demonstrates the calculation for modified net revenues.

Modified Net Revenues

Federal Columbia River Power System
For the quarters ended June 30 — thousands of dollars

	2006	2005
Net Revenues	**$ 192,713**	$ (6,322)
SFAS 133 derivative mark-to-market	**19,833**	(1,914)
Nonfederal debt management actions	**(45,794)**	(91,419)
Modified net revenues	**$ 166,752**	$ (99,655)

Additional Information

To see BPA's most recent annual report including audited financial statements, go to www.bpa.gov/corporate/finance/a_report

To see BPA's most recent press releases, go to www.onlinepressroom.net/bonneville

For general information about BPA, refer to BPA's Home page at www.bpa.gov

For information on the Power Business Lines 2007 Wholesale Power (WP-07) Rate Case Final Record of Decision, go to www.bpa.gov/power/pfr/rates/ratecases/wp07

For information about hydro power or current hydrological information, go to www.bpa.gov/power/pg/hydrspl.shtml

For information on the Transmission Business Line, go to www.transmission.bpa.gov

Federal Columbia River Power System

Combined Balance Sheets

(Unaudited)

	June 30, **2006**	September 30, 2005
	(thousands of dollars)	
Assets		
Federal utility plant		
Completed plant	**$ 12,941,737**	$ 12,722,386
Accumulated depreciation	**(4,618,307)**	(4,453,745)
	8,323,430	8,268,641
Construction work in progress	**1,167,514**	1,152,978
Net federal utility plant	**9,490,944**	9,421,619
Nonfederal generation	**2,435,065**	2,389,445
Current assets		
Cash	**1,541,797**	651,740
Accounts receivable, net of allowance	**110,492**	88,184
Accrued unbilled revenues	**294,366**	208,801
Materials and supplies, at average cost	**72,889**	75,073
Prepaid expenses	**24,590**	321,032
Total current assets	**2,044,134**	1,344,830
Other assets		
Regulatory assets	**5,974,583**	5,509,596
Nonfederal nuclear decommissioning trusts	**133,774**	125,509
Deferred charges and other	**135,266**	234,773
Total other assets	**6,243,623**	5,869,878
Total assets	**$ 20,213,766**	$ 19,025,772
Capitalization and Liabilities		
Capitalization and long-term liabilities		
Accumulated net revenues	**$ 1,867,893**	$ 1,334,294
Federal appropriations	**4,352,330**	4,272,662
Bonds issued to U.S. Treasury	**2,031,800**	2,211,800
Nonfederal projects debt	**6,506,390**	6,286,559
Total capitalization and long-term liabilities	**14,758,413**	14,105,315
Commitments and contingencies (See Note 7 to annual financial statements)		
Current liabilities		
Federal appropriations	**68,939**	68,939
Bonds issued to U.S. Treasury	**675,000**	565,000
Nonfederal projects debt	**16,529**	207,490
Accounts payable and other current liabilities	**424,818**	322,497
Total current liabilities	**1,185,286**	1,163,926
Other Liabilities		
Regulatory liabilities	**2,085,987**	2,129,660
IOU exchange benefits	**1,314,501**	984,187
Nonfederal nuclear asset retirement obligations	**163,900**	160,600
Deferred credits	**705,679**	482,084
Total other liabilities	**4,270,067**	3,756,531
Total capitalization and liabilities	**$ 20,213,766**	$ 19,025,772

Federal Columbia River Power System
Combined Statements of Revenues and Expenses
(Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2005
			(thousands of dollars)	
Operating revenues				
Sales	**$ 830,017**	$ 663,871	**$ 2,551,939**	$ 2,178,657
SFAS 133 derivative mark-to-market	**(19,833)**	1,914	**(75,690)**	8,128
Miscellaneous revenues	**26,519**	20,820	**52,759**	48,830
U.S. Treasury credits for fish	**19,096**	17,074	**55,277**	56,861
Total operating revenues	**855,799**	703,679	**2,584,285**	2,292,476
Operating expenses				
Operations and maintenance	**331,070**	343,562	**946,036**	932,214
Purchased power	**96,599**	159,260	**392,478**	438,193
Nonfederal projects	**84,203**	46,703	**249,781**	205,426
Federal projects depreciation and amortization	**85,576**	93,034	**259,483**	275,807
Total operating expenses	**597,448**	642,559	**1,847,778**	1,851,640
Net operating revenues	**258,351**	61,120	**736,507**	440,836
Interest expense				
Interest on federal investment				
Appropriated funds	**51,283**	49,084	**147,227**	147,253
Bonds issued to U.S. Treasury	**18,565**	23,482	**69,206**	79,254
Allowance for funds used during construction	**(4,210)**	(5,124)	**(13,525)**	(16,877)
Net interest expense	**65,638**	67,442	**202,908**	209,630
Net revenues	**$ 192,713**	$ (6,322)	**$ 533,599**	$ 231,206

Derivative instruments and hedging activities

The SFAS 133 mark-to-market (MTM) amount is an "accounting only" (no cash impact) adjustment representing the MTM adjustment required by SFAS 133, as amended, for identified derivative instruments.

Federal Columbia River Power System
Combined Statements of Cash Flows
(Unaudited)

	Nine Months Ended June 30, 2006	2005
	(thousands of dollars)	
Cash provided by operating activities		
Net revenues	**$ 533,599**	$ 231,206
Non-cash items:		
Federal projects depreciation and amortization	**259,483**	275,807
Amortization of capitalization adjustment	**(48,679)**	(48,679)
(Increase) decrease in:		
Receivables and unbilled revenues	**(107,872)**	(48,223)
Materials and supplies	**2,183**	3,630
Prepaid expenses	**296,442**	220,090
Decrease (increase) in:		
Accounts payable and other	**102,321**	159,690
Other	**137,923**	(17,066)
Cash provided by operating activities	**1,175,400**	776,455
Cash used for investment activities		
Investment in:		
Federal utility plant (including AFUDC)	**(278,260)**	(253,263)
Nonfederal projects	**(45,620)**	(91,606)
Cash used for investment activities	**(323,880)**	(344,869)
Cash provided by and used for financing activities		
Increase (repayment):		
Federal construction appropriations	**79,667**	3,709
Bonds issued to U.S. Treasury	**(70,000)**	(193,500)
Nonfederal debt	**28,870**	84,371
Cash provided by (used for) financing activities	**38,537**	(105,420)
Increase in cash	**890,057**	326,166
Beginning cash balance	**651,740**	654,242
Ending cash balance	**$ 1,541,797**	$ 980,408

Federal Columbia River Power System
Segment Reporting
(Unaudited)

Three Months Ended
June 30,
2006

	Power	Transmission	Other	FCRPS
	(thousands of dollars)			
Unaffiliated revenues	**$ 688,862**	**$ 166,937**	**$ -**	**$ 855,799**
Intersegment revenues	**18,918**	**46,318**	**(65,236)**	**-**
Total operating revenues	**707,780**	**213,255**	**(65,236)**	**855,799**
Unaffiliated expenses	**484,559**	**75,861**	**(48,548)**	**511,872**
Depreciation	**42,080**	**43,496**	**-**	**85,576**
Intersegment expenses	**46,051**	**18,918**	**(64,969)**	**-**
Total operating expenses	**572,690**	**138,275**	**(113,517)**	**597,448**
Net operating revenues	**135,090**	**74,980**	**48,281**	**258,351**
Interest expense	**39,564**	**34,461**	**(8,387)**	**65,638**
Net revenues	**$ 95,526**	**$ 40,519**	**$ 56,668**	**$ 192,713**

2005

	Power	Transmission	Other	FCRPS
	(thousands of dollars)			
Unaffiliated Revenues	$ 570,420	$ 133,258	**$** -	$ 703,678
Intersegment Revenues	17,081	29,480	(46,560)	1
Total operating revenues	587,501	162,738	(46,560)	703,679
Unaffiliated expenses	522,678	67,065	(40,218)	549,525
Depreciation	45,090	47,944	-	93,034
Intersegment expenses	29,181	17,081	(46,262)	-
Total operating expenses	596,949	132,090	(86,480)	642,559
Net operating revenues	(9,448)	30,648	39,920	61,120
Interest expense	40,023	33,717	(6,298)	67,442
Net revenues (expenses)	$ (49,471)	$ (3,069)	$ 46,218	$ (6,322)

Federal Columbia River Power System

Segment Reporting

(Unaudited)

Nine Months Ended June 30, **2006**

	Power	**Transmission**	**Other**	**FCRPS**
		(thousands of dollars)		
Unaffiliated Revenues	**$ 2,108,384**	**$ 475,901**	**$ -**	**$ 2,584,285**
Intersegment Revenues	**55,246**	**106,580**	**(161,826)**	**-**
Total operating revenues	**2,163,630**	**582,481**	**(161,826)**	**2,584,285**
Unaffiliated expenses	**1,506,813**	**217,474**	**(135,993)**	**1,588,294**
Depreciation	**130,690**	**128,794**	**-**	**259,484**
Intersegment expenses	**106,163**	**55,246**	**(161,409)**	**-**
Total operating expenses	**1,743,666**	**401,514**	**(297,402)**	**1,847,778**
Net operating revenues	**419,964**	**180,967**	**135,576**	**736,507**
Interest expense	**123,937**	**104,083**	**(25,112)**	**202,908**
Net revenues	**$ 296,027**	**$ 76,884**	**$ 160,688**	**$ 533,599**

2005

	Power	Transmission	Other	FCRPS
		(thousands of dollars)		
Unaffiliated Revenues	$ 1,894,151	$ 398,325	$ -	$ 2,292,476
Intersegment Revenues	54,876	78,701	(133,577)	-
Total operating revenues	1,949,027	477,026	(133,577)	2,292,476
Unaffiliated expenses	1,506,913	190,724	(121,804)	1,575,833
Depreciation	132,953	142,854	-	275,807
Intersegment expenses	78,242	54,876	(133,118)	-
Total operating expenses	1,718,108	388,454	(254,922)	1,851,640
Net operating revenues	230,919	88,572	121,345	440,836
Interest expense	126,430	102,261	(19,061)	209,630
Net revenues (expenses)	$ 104,489	$ (13,689)	$ 140,406	$ 231,206

Operating Segments

In fiscal year 1997 BPA opted to implement FERC's open-access rulemaking and standards of conduct. FERC requires that transmission activities are functionally separate from wholesale power merchant functions and that transmission is provided in a nondiscriminatory open-access manner.

The FCRPS' major operating segments are defined by the utility functions of generation and transmission. The Power Business Line represents the operations of the generation function, while the Transmission Business Line represents the operations of the transmission function. The business lines are not separate legal entities. Where applicable, "Other" represents items that are necessary to reconcile to the financial statements, which generally include shared activity and eliminations. Each FCRPS segment operates predominantly in one industry and geographic region: the generation and transmission for electric power in the Pacific Northwest.

The FCRPS centrally manages all interest expense activity. Since BPA has one fund with the U.S. Treasury, all cash and cash transactions are also centrally managed. Unaffiliated revenues represent sales to external customers for each segment. Intersegment revenues are eliminated.

Major Customers

During fiscal 2006, and 2005, no single customer represented 10% or more of the FCRPS' revenues.